

VANDERBILT AREA SCHOOL
BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

**VANDERBILT AREA SCHOOL
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INDEPENDENT AUDITOR'S REPORT

September 20, 2006

Board of Education
Vanderbilt Area School
Vanderbilt, Michigan 49795

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Vanderbilt Area School as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Vanderbilt Area School's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Vanderbilt Area School, as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that Vanderbilt Area School will continue as a going concern. As discussed in Note 12 to the financial statements, the school's general fund had a net loss of \$125,680 for the year ending June 30, 2006, resulting in an ending fund balance deficit of \$177,637. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with Government Auditing Standards, I have also issued my report dated September 20, 2006 on my consideration of Vanderbilt Area School's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 6 and pages 23 through 26 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Vanderbilt Area School's basic financial statements. The introductory section, and combining non-major fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major fund financial statements have been subjected to the auditing procedures applied by me in the audit of the basic financial statements and, in my opinion, based on my audit are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on it.



THOMAS R. ZICK CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

VANDERBILT AREA SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management Discussion and Analysis, a requirement of GASB 34, is intended to be the Vanderbilt Area School District ("the District") management's/administration's discussion and analysis of the financial results for the year ended June 30, 2006. The purpose of the discussion and analysis is to provide a look at the district's performance and current position. Readers should also review the auditor's report, the notes to the financial statements, and the financial statements to enhance their understanding of the district's financial performance.

FINANCIAL HIGHLIGHTS

The overall financial condition of the district is stable at this time. All goals related to financial activities have been met in the past year. However, the resources for the following year will be available only if current revenue and expenditure patterns improve.

The assets of the Vanderbilt Area School District exceeded liabilities at the close of the most recent fiscal year by \$362,561 (net assets).

The district's total net assets decreased by \$94,427 in the 2005/06 school year.

At the end of the current fiscal year, the fund balance deficit for the District's General Fund is \$177,637.

USING THE ANNUAL REPORT

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a whole (government-wide statements), and then proceed to provide an increasingly detailed look at specific financial statements (fund financial statements). Also included are various notes to the financial statements. The audit also contains supplemental information in addition to the basic financial statements.

Reporting the District as a Whole – The Statement of Net Assets and Statement of Activities

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its activities in a manner to help address this question. These statements include all assets and liabilities of the District using the accrual basis of accounting similar to the accounting used by the private sector. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

The two statements report the District's net assets and any changes in them. The change in net assets provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as property tax base, political conditions on a State level, student enrollment growth, quality of local service, and facility improvements prior to arriving at any conclusion regarding the overall health of the District.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds, not the District as a whole. The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual". The two types of funds: governmental funds and fiduciary funds use different accounting approaches as further discussed in the notes to the financial statements.

Governmental Funds

Most of the District's activities are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources available to spend in the near future to finance the District's programs. The relationship (or differences) between governmental funds is reconciled in the basic financial statements.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the District's net assets as of June 30, 2006. As this is the first year of implementation of GASB 34 statements, prior year comparisons are not available.

TABLE 1 Governmental Activities

<u>Assets</u>	<u>06/30/06</u>	<u>06/30/05</u>
Current Assets	\$ 621,540	\$ 956,427
Noncurrent Assets	<u>3,193,010</u>	<u>3,291,525</u>
Total Assets	<u>\$ 3,814,550</u>	<u>\$ 4,247,952</u>
<u>Liabilities</u>		
Current Liabilities	\$ 650,889	\$ 874,046
Noncurrent Liabilities	<u>2,801,100</u>	<u>2,916,918</u>
Total Liabilities	<u>\$ 3,451,989</u>	<u>\$ 3,790,964</u>
<u>Net Assets</u>		
Invested in Capital Assets - Net of Debt	\$ 343,010	\$ 302,525
Restricted	291,523	289,698
Unrestricted	<u>(271,972)</u>	<u>(135,235)</u>
Total Net Assets	<u>\$ 362,561</u>	<u>\$ 456,988</u>

The District reports positive balances in each category of net assets except for unrestricted net assets.

The results of this year's operations for the District as a whole are represented in a statement of activities (Table 2), which shows the changes in net assets for the fiscal year 2005/06.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

TABLE 2 Governmental Activities

	<u>06/30/06</u>	<u>06/30/05</u>
Program Revenues		
Charges for services	\$ 33,513	\$ 30,143
Operating grants and contributions	379,060	397,549
General Revenues		
Property taxes	1,187,689	1,155,293
State School Aid	588,405	690,751
Other	<u>56,150</u>	<u>55,662</u>
Total Revenues	<u>\$ 2,244,817</u>	<u>\$ 2,329,398</u>
	<u>06/30/06</u>	<u>06/30/05</u>
Functions/Program Expenses		
Instruction	\$ 1,378,399	\$ 1,256,795
Supporting services	677,665	934,972
Athletics & food services	114,380	116,320
Interest on debt	<u>168,800</u>	<u>160,671</u>
Total Expenses	<u>2,339,244</u>	<u>2,468,758</u>
Change in Net Assets	<u>\$ (94,427)</u>	<u>\$ (139,360)</u>

As reported in the statement of activities the cost of all governmental activities for the year was \$2,339,244 while \$1,187,689 in revenue was generated directly from local taxpayers, another \$33,513 was generated through "charges for actual services" to local districts, or individuals that benefited directly from our services. State, federal, other regional grants and programs brought \$379,060 to the district. The district received \$588,405 in state education funding and \$56,150 in other miscellaneous sources, inclusive of investment earnings. Net assets for the year ending June 30, 2006 decreased by approximately \$94,427.

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The District's budgets are not prepared in accordance with Michigan Law, because the budgets for the year ending 6/30/05 and 6/30/06 have been adopted showing fund balance deficits, which violates state law. The most significant budgeted fund is the General Fund. During the fiscal year of 2005/06 the District amended the budgets of these major governmental funds twice. This has been the normal business practice of the district. Due to the timing of grant awards and pupil counts, the general fund budget will change significantly from the beginning to the end of the year. The two major funds are the General Fund and the 1997 Debt Fund. Only the General Fund is required to adopt a budget under Michigan law.

General Fund

The General Fund revenues were lower than expenditures in the past year of operations by \$125,680. In anticipation of the state education budget crises, the District also made cuts in all operational areas.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's assets have accumulated \$1,915,020 of depreciation. Our capitalized assets include our buildings, land, equipment and transportation fleet. This year saw a \$98,515 decrease in Net Capital Assets. A categorized listing of the assets is below.

TABLE 3 Vanderbilt Area School District Capital Assets

	Balance June 30, 2005	Additions	Disposals	June 30, 2006
Capital assets not being depreciated:				
Land	\$ 11,500	\$ -	\$ -	\$ 11,500
Capital assets being depreciated:				
Building and land improvements	4,302,947	-	-	4,302,947
Buses and other vehicles	190,126	-	-	190,126
Furniture and equipment	582,180	21,277	-	603,457
Subtotal	5,075,253	21,277	-	5,096,530
Accumulated depreciation:				
Building and land improvements	1,336,696	60,010	-	1,396,706
Buses and other vehicles	98,749	39,188	-	137,937
Furniture and equipment	359,783	20,594	-	380,377
Subtotal	1,795,228	119,792	-	1,915,020
Net capital assets being depreciated	3,280,025	(98,515)	-	3,181,510
Net governmental capital assets	<u>\$ 3,291,525</u>	<u>\$ (98,515)</u>	<u>\$ -</u>	<u>\$ 3,193,010</u>

Long Term Debt

The District owes \$2,873,301 on loans that will be paid over the next sixteen years. This is a decrease in outstanding debt of \$140,910 or 4.7%. More detail is shown on pages 20-21 in the Notes to the Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The economy of the State of Michigan has dramatically slowed and forecasts project shortages in both the State's General Fund and the School Aid Fund for the upcoming year. The exact implications the shortages will have on the District are unknown. Our budgets were prepared with these factors in mind. We also are dependent on student counts for our foundation allowance. Student counts vary from year to year and have been in steady decline. The district has enjoyed the additional revenue provided through legislation for sparsely populated, declining enrollment school districts. This additional revenue is subject to change by the State Legislature at any time.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Vanderbilt Area School District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Jeffrey D. Liedel, Superintendent
Vanderbilt Area School District

947 Donovan Street
Vanderbilt, MI 49795
989-983-4121

VANDERBILT AREA SCHOOL
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities
<hr/>	
ASSETS	
Cash demand and time deposits	\$ 495,303
Receivables	
Other governments	114,856
Taxes	2,898
Prepaid insurance	6,552
Inventory	1,931
Capital assets	
Land	11,500
Other capital assets, net of depreciation	<u>3,181,510</u>
TOTAL ASSETS	<u>3,814,550</u>
LIABILITIES	
Account payable	24,048
Accrued liabilities	176,602
Note payable	275,000
Deferred revenue	48,238
Noncurrent liabilities:	
Due within one year	127,001
Due in more than one year	<u>2,801,100</u>
TOTAL LIABILITIES	<u>3,451,989</u>
NET ASSETS	
Invested in capital assets, net of related debt	343,010
Restricted for:	
Debt Service	291,523
Unrestricted	<u>(271,972)</u>
TOTAL NET ASSETS	<u><u>\$ 362,561</u></u>

See Notes to Financial Statements

VANDERBILT AREA SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Functions / Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue
Primary Government				
Governmental Activities				
Instruction	\$ 1,378,399	\$ -	\$ 260,002	\$ (1,118,397)
Support Services	677,665	-	64,271	(613,394)
Athletics	42,269	17,397	-	(24,872)
Food Service	72,111	16,116	52,016	(3,979)
Interest on Debt	<u>168,800</u>	<u>-</u>	<u>2,771</u>	<u>(166,029)</u>
Total Governmental Activities	<u>\$ 2,339,244</u>	<u>\$ 33,513</u>	<u>\$ 379,060</u>	<u>(1,926,671)</u>
General revenues:				
Taxes:				
Property taxes levied for general purposes				861,032
Property taxes, levied for debt services				273,997
Property taxes, levied for special education through ESD				52,660
State aid not restricted to specific purposes				588,405
Interest and investment earnings				11,152
Other				<u>44,998</u>
Total general revenues, contributions and transfers				<u>1,832,244</u>
Change in net assets				(94,427)
Net assets, beginning of year (as restated)				<u>456,988</u>
Net assets, end of year				\$ 362,561

See Notes to Financial Statements

VANDERBILT AREA SCHOOL
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	GENERAL FUND	1997 DEBT FUND	OTHER FUNDS	TOTAL
ASSETS				
Cash	\$ 199,527	\$ 291,212	\$ 4,564	\$ 495,303
Receivables				
Taxes	2,587	311	-	2,898
Prepaid Insurance	6,552	-	-	6,552
Inventory	-	-	1,931	1,931
Due From Other Funds	-	-	655	655
Due From Other Governmental Units	114,200	-	656	114,856
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 322,866</u>	<u>\$ 291,523</u>	<u>\$ 7,806</u>	<u>\$ 622,195</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	24,048	-	-	24,048
Accrued Liabilities	152,562	-	-	152,562
Note Payable	275,000	-	-	275,000
Due to Other Funds	655	-	-	655
Deferred Revenue	48,238	-	-	48,238
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>500,503</u>	<u>-</u>	<u>-</u>	<u>500,503</u>
FUND BALANCES				
Reserved	-	291,523	-	291,523
Unreserved	(177,637)	-	7,806	(169,831)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u>(177,637)</u>	<u>291,523</u>	<u>7,806</u>	<u>121,692</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 322,866</u>	<u>\$ 291,523</u>	<u>\$ 7,806</u>	<u>\$ 622,195</u>

See Notes to Financial Statements

VANDERBILT AREA SCHOOL
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
JUNE 30, 2006

Fund Balances - Total Governmental Funds	\$ 121,692
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Capital Assets - at Cost	5,108,030
Accumulated Depreciation	(1,915,020)

Certain liabilities such as bonds and notes payable are not due and payable in the current period and therefore are not reported in the governmental funds

Bonds payable	(2,873,301)
Compensated absences payable	(54,800)

Accrued interest payable is not included as a liability in governmental funds	(24,040)
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Net Assets of Governmental Activities	<u>\$ 362,561</u>
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See Notes to Financial Statements

VANDERBILT AREA SCHOOL
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	GENERAL FUND	1997 DEBT FUND	OTHER FUNDS	TOTAL
REVENUES				
Local Sources	\$ 913,692	\$ 273,997	\$ 33,513	\$ 1,221,202
State Sources	641,235	-	8,378	649,613
Federal Sources	271,443	-	46,409	317,852
Interest Income	2,292	8,755	105	11,152
Other Revenue	44,998	-	-	44,998
 TOTAL REVENUES	 <u>1,873,660</u>	 <u>282,752</u>	 <u>88,405</u>	 <u>2,244,817</u>
EXPENDITURES				
Current				
Instruction	1,278,203	-	-	1,278,203
Supporting Services	644,417	-	2,469	646,886
Athletic Events	-	-	42,269	42,269
Food Services	-	-	72,111	72,111
Capital Outlay	2,500	-	18,777	21,277
Debt Service:				
Principal	29,000	110,000	1,910	140,910
Interest and Other Charges	19,086	149,770	861	169,717
 TOTAL EXPENDITURES	 <u>1,973,206</u>	 <u>259,770</u>	 <u>138,397</u>	 <u>2,371,373</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(99,546)</u>	<u>22,982</u>	<u>(49,992)</u>	<u>(126,556)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	-	319	26,134	26,453
Transfers (Out)	(26,134)	-	(319)	(26,453)
 TOTAL OTHER FINANCING SOURCES (USES)	 <u>(26,134)</u>	 <u>319</u>	 <u>25,815</u>	 <u>-</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(125,680)	23,301	(24,177)	(126,556)
FUND BALANCES, BEGINNING OF YEAR	<u>(51,957)</u>	<u>268,222</u>	<u>31,983</u>	<u>248,248</u>
FUND BALANCES, END OF YEAR	<u>\$ (177,637)</u>	<u>\$ 291,523</u>	<u>\$ 7,806</u>	<u>\$ 121,692</u>

See Notes to Financial Statements

VANDERBILT AREA SCHOOL
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
FOR THE YEAR ENDED JUNE 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$ (126,556)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - Capital Outlay	21,277
Deduct - Depreciation Expense	(119,792)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - Principal Payments on Long-term Liabilities	140,910
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Accrued interest, compensated absences, and retirement incentive payable do not require the use of current financial resources and therefore are not reported as expenditures in the fund statements

Add - Decrease in accrued interest payable on bonds	917
Deduct - Increase in compensated absences	<u>(11,183)</u>

Change in Net Assets of Governmental Activities	<u>\$ (94,427)</u>
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See Notes to Financial Statements

VANDERBILT AREA SCHOOL
STATEMENT OF FIDUCIARY FUND NET ASSETS
AGENCY FUNDS
JUNE 30, 2006

ASSETS

Cash	\$ 17,280
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TOTAL ASSETS	<u>\$ 17,280</u>
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LIABILITIES

Due to Student Groups	\$ 17,280
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TOTAL LIABILITIES	<u>\$ 17,280</u>
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See Notes to Financial Statements

VANDERBILT AREA SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Vanderbilt Area School conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District.

REPORTING ENTITY

The school district is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's district-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

District-Wide Financial Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

VANDERBILT AREA SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the District.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The School District reports the following major governmental funds:

General Fund - The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

1997 Debt Retirement Fund – The 1997 Debt Retirement Fund is used to record tax, interest, and other revenue for the payment of general long-term debt principal, interest, and related costs.

Additionally, the District reports the following governmental types:

Special Revenue Funds - Special Revenue Funds are governmental funds used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The District's Special Revenue Funds include the Food Service and Athletics Funds. Any operating deficit generated by these activities is the responsibility of the General Fund.

Capital Project Fund – Capital Project funds are governmental funds used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Fiduciary Funds – The School District maintains an Agency Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Cash and Investments – Cash and investments include cash on hand, demand deposits, and savings accounts.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.”

VANDERBILT AREA SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes are levied and become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county delinquent tax rolls. The County operates a delinquent tax revolving fund and normally pays to the District all current taxes annually prior to June 30.

Restricted Assets – The fund balance in the debt service fund is shown as a restricted fund balance. This balance can only be used to service the debt.

Capital Assets – Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings, building additions, and land improvements	10-50 years
Buses and other vehicles	7-15 years
Furniture and other equipment	2-15 years

Long-Term Obligations – In the district-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting Change – Effective July 1, 2003, the School district implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34) along with all related statements and interpretations.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the general and special revenue funds. All annual appropriations lapse at the fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year.

VANDERBILT AREA SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

Excess Expenditures Over Appropriations in Budgeted Funds - The School District is required under Public Act 621 of 1978 to adopt (pass) a budget (General Appropriations Act) for the General Fund and Individual Special Revenue Funds. The District complied in all areas except the following expenditure areas that exceeded budgeted amounts:

<u>Fund/Function</u>	<u>Total Budget</u>	<u>Actual Expenditures</u>	<u>Budget Variance</u>
General Fund			
High School	\$ 255,000	\$ 266,412	\$ (11,412)
At Risk	\$ 46,639	\$ 47,915	\$ (1,276)
Reading First	\$ 111,924	\$ 112,067	\$ (143)
Student Services-Other	\$ 10,669	\$ 11,244	\$ (575)
Board of Education	\$ 46,650	\$ 47,308	\$ (658)
Transfers Out	\$ 22,000	\$ 26,134	\$ (4,134)
Special Revenue:			
Athletic	\$ 40,079	\$ 42,269	\$ (2,190)
Food Service	\$ 68,396	\$ 72,111	\$ (3,715)

The district adopted an original budget for the year 2005/06 that was in violation of state statutes, because it showed an ending fund balance deficit. The final amended budget also violated state statutes for the same reason. The District has filed a deficit elimination plan with the Michigan Department of Education, which has been approved by them.

NOTE 3 - CASH AND INVESTMENTS

The captions on the combined balance sheet related to cash and investments are as follows:

	<u>Imprest Cash</u>	<u>Cash/checking and Savings</u>	<u>Total</u>
Government Activities	\$ 200	\$ 495,103	\$ 495,303
Agency Funds	-	17,280	17,280
	<u>\$ 200</u>	<u>\$ 512,383</u>	<u>\$ 512,583</u>

Deposits - At year-end, the carrying amount of the District's deposits was \$512,383 and the bank balance was 594,461 and was classified as to risk as follows.

Insured	\$ 223,923
Uninsured – Uncollateralized	288,460
	<u>\$ 512,383</u>

Investments – Act 217, PA 1982, authorized the School District to deposit and invest in the following:

- a. Bonds, bills, and other direct obligations of the United States or its agencies.
- b. Certificates of deposit and other savings instruments issued by a federally insured bank, savings and loan or credit union maintaining an office in Michigan.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.

VANDERBILT AREA SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

- d. Mutual Funds comprised of investments which are legal for direct investment by local units of government in Michigan.
- e. U.S. Government or federal agency obligation repurchase agreements.

The Board of Education is authorized to designate depositories for District funds, and the funds are invested in accordance with State of Michigan statutory authority

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). There were no investments at March 31, 2006.

Interest Rate Risk

The School District has not adopted a policy that indicates how the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time. There were no investments at March 31, 2006.

Concentration of Credit Risk

The School District has not adopted a policy that indicates how the School District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the School District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. There were no investments at March 31, 2006.

Custodial Credit Risk

The School District has not adopted a policy that indicates how the School District will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

NOTE 4 – RECEIVABLES

Receivables as of year-end for the School District's individual major funds and the other nonmajor governmental funds are as follows:

	<u>General</u>
Receivables	
Taxes	\$ 2,898
State of Michigan	<u>114,856</u>
Net Receivables	<u><u>\$ 117,754</u></u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, deferred revenue consists of grant and categorical aid payments received prior to meeting all eligibility requirements and other items totaling \$48,283.

VANDERBILT AREA SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

<u>Transfers In/Out</u>	<u>Transfer In</u>	<u>Transfer Out</u>	<u>Total</u>
General Fund	\$ -0-	\$ (26,134)	\$ (26,134)
Special Revenue:			
Athletic Fund	26,134	-0-	26,134
Capital Projects	-0-	(319)	(319)
1997 Debt Fund	<u>319</u>	<u>-0-</u>	<u>319</u>
Total	<u>\$ 26,453</u>	<u>\$ (26,453)</u>	<u>\$ -0-</u>
<u>Due To / Due From</u>	<u>Due To</u>	<u>Due From</u>	
General Fund	\$ 655	\$ -0-	
Special Revenue:			
Food Service	<u>-0-</u>	<u>655</u>	
Total	<u>\$ 655</u>	<u>\$ 655</u>	

NOTE 6 – CAPITAL ASSETS

Capital asset activity of the School District's governmental activities was as follows:

	<u>Balance</u> <u>June 30, 2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2006</u>
Capital assets not being depreciated:				
Land	\$ 11,500	\$ -	\$ -	\$ 11,500
Capital assets being depreciated:				
Building and land improvements	4,302,947	-	-	4,302,947
Buses and other vehicles	190,126	-	-	190,126
Furniture and equipment	<u>582,180</u>	<u>21,277</u>	<u>-</u>	<u>603,457</u>
Subtotal	<u>5,075,253</u>	<u>21,277</u>	<u>-</u>	<u>5,096,530</u>
Accumulated depreciation:				
Building and land improvements	1,336,696	60,010	-	1,396,706
Buses and other vehicles	98,749	39,188	-	137,937
Furniture and equipment	<u>359,783</u>	<u>20,594</u>	<u>-</u>	<u>380,377</u>
Subtotal	<u>1,795,228</u>	<u>119,792</u>	<u>-</u>	<u>1,915,020</u>
Net capital assets being depreciated	<u>3,280,025</u>	<u>(98,515)</u>	<u>-</u>	<u>3,181,510</u>
Net governmental capital assets	<u>\$ 3,291,525</u>	<u>\$ (98,515)</u>	<u>\$ -</u>	<u>\$ 3,193,010</u>

Depreciation expense was charged to activities of the School District as follows:

Governmental activities:	
Instruction	\$ 91,155
Support services	<u>28,637</u>
Total	<u>\$ 119,792</u>

VANDERBILT AREA SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 7 - LONG-TERM DEBT

The following is a summary of debt transactions of the School District for the Year ended June 30, 2006:

	<u>Bus Contract</u>	<u>Durant Debt</u>	<u>1997 Bond</u>	<u>Compensated Absences</u>	<u>Total</u>
Payable at July 1, 2005	\$ 29,000	\$ 25,211	\$2,960,000	\$ 43,617	\$ 3,057,828
Reductions/Additions	(29,000)	(1,910)	(110,000)	11,183	(129,727)
Payable at June 30, 2006	<u>\$ -0-</u>	<u>\$ 23,301</u>	<u>\$2,850,000</u>	<u>\$ 54,800</u>	<u>\$ 2,928,101</u>

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 6/30/06</u>		<u>Total</u>
			<u>Principal</u>	<u>Interest</u>	
Durant Debt	4.761353%	2013	\$ 23,301	\$ 6,402	\$ 29,703
1997 Bond	4.35%	2008	2,850,000	1,319,905	4,169,905
Total			<u>\$2,873,301</u>	<u>\$ 1,326,307</u>	<u>\$ 4,199,608</u>

BUS CONTRACT – A third party installment purchase agreement for the purchase of two buses was entered into during the year ended June 30, 2003. Independent Bank of Gaylord purchased the installment agreement from the bus vendor. The interest rate on the loan was 3% per annum with annual principal payments. The note matured on December 31, 2005.

DURANT DEBT - During a previous fiscal year the district received proceeds in the amount of \$39,462 as partial resolution of litigation. The District will receive State Aid equal to the debt service cost annually. If the legislature fails to appropriate the funds, the District is under no obligation to make the payment.

Original issue - \$39,362 – School Improvement Bond, Series 1998 due in annual installments as scheduled below. The annual interest rate is 4.761343%. The final payment is due May 15, 2013.

During the 2002/03 school year the Michigan Municipal bond Authority determined that certain payments of principal and interest (those payments due May of 2003, 2004, and 2005) shall be deferred until a later date which increases the amounts due in the later years of the contract but does not increase the total number of years outstanding.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 2,001	770	2,771	2011	2,410	361	2,771
2008	2,096	675	2,771	2012	2,525	246	2,771
2009	2,196	575	2,771	2013	9,772	3,305	13,077
2010	\$ 2,301	\$ 470	\$ 2,771	Total	<u>\$ 23,301</u>	<u>\$ 6,402</u>	<u>\$ 29,703</u>

VANDERBILT AREA SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 7 - LONG-TERM DEBT (CONTINUED)

1997 GENERAL OBLIGATION BONDS - Original issue - \$3,400,000 – 1997 Building and Site Bonds due in annual installments as scheduled below. Interest rates vary from 4.75% to 5.125% throughout the life of the bond issue. The final payment is due May 1, 2022.

	May 1 <u>Principal</u>	Interest <u>Rate</u>	May 1 <u>Interest</u>	Nov 1 <u>Interest</u>	<u>Total</u>
2006		5.000		\$ 72,120	\$ 72,120
2007	\$ 125,000	5.000	\$ 72,120	68,995	266,115
2008	135,000	5.000	68,995	65,620	269,615
2009	145,000	5.000	65,620	61,995	272,615
2010	155,000	5.000	61,995	58,120	275,115
2011	160,000	5.000	58,120	54,120	272,240
2011-16	930,000	5.000	225,627	202,183	1,357,810
2016-21	1,000,000	5.100	102,350	76,800	1,179,150
2021-22	<u>200,000</u>	5.000	<u>5,125</u>	<u>-0-</u>	<u>205,125</u>
	<u>\$ 2,850,000</u>		<u>\$ 659,952</u>	<u>\$ 659,953</u>	<u>\$ 4,169,905</u>

Five Year Annual Debt Service for all debt, other than compensated absences, combined is as follows:

Annual Debt Service Requirements:

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006/07	\$ 127,001	\$ 145,010	\$ 272,011
2007/08	137,096	138,665	275,761
2008/09	147,196	131,815	279,011
2009/10	157,301	124,460	281,761
2010/11	162,410	116,601	279,011
2011/16	942,297	454,806	1,397,103
2016/21	1,000,000	204,700	1,204,700
2021/22	<u>200,000</u>	<u>10,250</u>	<u>210,250</u>
Total	<u>\$ 2,873,301</u>	<u>\$ 1,322,756</u>	<u>\$ 4,499,608</u>

\$291,523 is available in the Debt Retirement Funds to service the general obligation bonds.

NOTE 8 - DEFINED BENEFIT PENSION PLAN

All District full-time employees participate in the Michigan Public School Employees' Retirement System, ("System"), a cost-sharing multiple-employer public employee retirement system. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

All full-time employees of the District are required by law to participate in the System. All benefits vest after 10 years of service. Basic plan members may retire at age 55 with 30 years of credited service, or at age 60 with 10 or more years of credited service. A Member Investment Plan (MIP) member may retire at any age with 30 years of credited service or at age 60 with 5 years of service. Both basic and MIP plan members may retire at age 55 with 15 years of service and receive reduced early retirement benefits. Benefits are paid monthly over the member's or survivor's lifetime and are equal to 1.5% of the member's final average compensation times the member's years of credited service. The final average compensation period for basic members is 60 consecutive months and for MIP members is 36 consecutive months. The system also provides health, dental and vision insurance coverage for retirees.

VANDERBILT AREA SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 8 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at various rates depending on school fiscal year compensation. Basic plan members make no contributions. The District was required to contribute 16.34% of participants salary to the System for the fiscal year ended 6/30/06, and the State of Michigan is responsible for any further contributions necessary to keep the fund actuarially sound. The School District's contributions to the MPSERS plan for the years ended June 30, 2006, 2005, and 2004 were \$167,377, \$172,174, and \$170,202.

Post-Employment Benefits

Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage. In prior years the State pre-funded these benefits using the entry age actuarial cost method. Retirees having this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverage. These contributions are deducted from the retirees' monthly pension. No additional contributions are required from the District on these post-employment benefits. The 16.34% noted above includes these costs.

NOTE 9 - RISK MANAGEMENT

The School District participates in the MASB-SEG Property and Casualty Pool and Workers Compensation Pool.

The MASB-SEG Property/Casualty Pool, Inc. was created on May 23, 1985 and organized under Public Act 138 of 1982 as amended, as a governmental group property and casualty self-insurance pool. Approximately 375 educational institutions within the State of Michigan participate in the Pool.

The Pool limits the maximum net loss that may arise from large risks or in concentrated areas of exposure by reinsuring certain levels of risks with other insurers or reinsurers. The Pool purchases excess liability coverage from one or more insurers or reinsurers to provide 100 percent coverage at each insured level.

NOTE 10 – SUBSEQUENT EVENT

On June 28, 2006 the Board of Education adopted the fiscal year 2006/07 budgets that included the general fund budget with a current year surplus of \$67,191, and an estimated fund balance deficit of \$123,381. State statutes prohibit adoption of a deficit fund balance budget. However, the District is reducing the deficit according the budget adopted.

NOTE 11 – SHORT TERM DEBT

On May 11, 2006 the district borrowed \$275,000 pledging future State Aid as collateral. The note is due February 21, 2007 along with interest at a rate of 4.5% per annum. This note is recorded as a short term obligation on the balance sheet of the general fund.

VANDERBILT AREA SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 12 – GOING CONCERN

The General Fund experienced a loss of \$125,680 during the year ended June 30, 2006 leaving a fund balance deficit of \$177,637. The School District has cut staffing costs by eliminating an administrative position during the 2005/06 school year. In addition, other staffing reductions have been implemented.

The District has filed a deficit elimination plan with the Michigan Department of Education that has been approved. The plan projected a fund balance deficit of \$224,025 as of June 30, 2006. The actual deficit was \$177,637 so the District is already \$46,388 better than planned. The plan also projects that the District will eliminate the general fund deficit by the end of the 2009/10 school year.

The District must continue to closely monitor expenses and strive to increase student counts, thereby maintaining or cutting costs while increasing revenue from the state foundation allowance.

On June 22, 2006 the District has a \$275,000 State Aid Note outstanding with a due date of February 27, 2007. At June 30, 2005 the District had a \$500,000 note outstanding so the District was able to pay down their note by \$225,000. This was accomplished in part because the District elected to collect property taxes in the summer. The first summer tax collection began July 1, 2006. This will assist in providing immediate cash flow and thereby reduce the need for borrowings in the amounts needed in prior years.

REQUIRED SUPPLEMENTARY INFORMATION

VANDERBILT AREA SCHOOL
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, OTHER SOURCES (USES)
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Local Sources	\$ 896,801	\$ 926,785	\$ 960,982	\$ 34,197
State Sources	668,486	671,288	641,235	(30,053)
Federal Sources	<u>308,132</u>	<u>290,185</u>	<u>271,443</u>	<u>(18,742)</u>
 TOTAL REVENUES	 <u>1,873,419</u>	 <u>1,888,258</u>	 <u>1,873,660</u>	 <u>(14,598)</u>
EXPENDITURES				
Instruction:				
Basic programs	828,225	849,000	856,810	(7,810)
Added Needs	468,246	435,061	421,393	13,668
 Support Services:				
Student Services	86,176	74,609	62,471	12,138
General Administration	210,050	238,850	237,171	1,679
Office of Principal	62,250	62,500	61,416	1,084
Business Services	9,779	9,779	9,779	-
Plant Operation and Maintenance	236,475	223,350	213,649	9,701
Transportation	70,835	61,000	59,931	1,069
Capital Outlay	2,500	2,500	2,500	-
Debt Principal	29,130	29,129	29,000	129
Interest	<u>15,321</u>	<u>19,086</u>	<u>19,086</u>	<u>-</u>
 TOTAL EXPENDITURES	 <u>2,018,987</u>	 <u>2,004,864</u>	 <u>1,973,206</u>	 <u>31,658</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(145,568)</u>	<u>(116,606)</u>	<u>(99,546)</u>	<u>17,060</u>
OTHER FINANCING SOURCES (USES)				
Transfers (Out)	<u>(26,500)</u>	<u>(22,000)</u>	<u>(26,134)</u>	<u>(4,134)</u>
 TOTAL OTHER FINANCING SOURCES (USES)	 <u>(26,500)</u>	 <u>(22,000)</u>	 <u>(26,134)</u>	 <u>(4,134)</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(172,068)	(138,606)	(125,680)	12,926
FUND BALANCES, BEGINNING OF YEAR	<u>(51,957)</u>	<u>(51,957)</u>	<u>(51,957)</u>	<u>-</u>
FUND BALANCES, END OF YEAR	<u>\$ (224,025)</u>	<u>\$ (190,563)</u>	<u>\$ (177,637)</u>	<u>\$ 12,926</u>

See Notes to Financial Statements

VANDERBILT AREA SCHOOL
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER SOURCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGETED AMOUNT</u>			VARIANCE WITH FINAL BUDGET OVER (UNDER)
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
LOCAL SOURCES				
Taxes and Penalties	\$ 818,006	\$ 850,187	\$ 861,032	\$ 10,845
Interest Income	-	-	2,292	2,292
Miscellaneous Income	33,795	31,598	44,998	13,400
Incoming Transfers ISD	<u>45,000</u>	<u>45,000</u>	<u>52,660</u>	<u>7,660</u>
TOTAL LOCAL SOURCES	<u>896,801</u>	<u>926,785</u>	<u>960,982</u>	<u>34,197</u>
STATE SOURCES				
Categorical State Aid	668,486	671,288	640,266	(31,022)
Incoming Transfers ISD	<u>-</u>	<u>-</u>	<u>969</u>	<u>969</u>
TOTAL STATE SOURCES	<u>668,486</u>	<u>671,288</u>	<u>641,235</u>	<u>(30,053)</u>
FEDERAL SOURCES				
Title I	172,019	154,072	133,168	(20,904)
Title II A	12,700	12,700	12,671	(29)
Title II D	2,100	2,100	2,096	(4)
Title V	1,800	1,800	1,727	(73)
State Plan Self Review	3,710	3,710	3,710	-
Homeland Security Grant	1,326	1,326	1,326	-
Reading First	112,067	112,067	112,067	-
Comprehensive School Reform	2,410	2,410	2,410	-
Incoming Transfers ISD	<u>-</u>	<u>-</u>	<u>2,268</u>	<u>2,268</u>
TOTAL FEDERAL SOURCES	<u>308,132</u>	<u>290,185</u>	<u>271,443</u>	<u>(18,742)</u>
TOTAL REVENUE & OTHER FINANCING SOURCES	<u>\$ 1,873,419</u>	<u>\$ 1,888,258</u>	<u>\$ 1,873,660</u>	<u>\$ (14,598)</u>

See Notes to Financial Statements

VANDERBILT AREA SCHOOL
GENERAL FUND
SCHEDULE OF EXPENDITURES, AND OTHER USES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGETED AMOUNT</u>			<u>VARIANCE WITH FINAL BUDGET OVER (UNDER)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
EXPENDITURES				
INSTRUCTION				
Basic Programs:				
Elementary	\$ 335,370	\$ 347,000	\$ 344,138	\$ 2,862
Middle School	251,050	247,000	246,260	740
High School	<u>241,805</u>	<u>255,000</u>	<u>266,412</u>	<u>(11,412)</u>
Total Basic Programs	<u>828,225</u>	<u>849,000</u>	<u>856,810</u>	<u>(7,810)</u>
Added Needs:				
Special Education	119,475	115,500	113,846	1,654
Title I	156,664	137,080	133,168	3,912
At Risk	46,639	46,639	47,915	(1,276)
Title II A	31,241	22,191	12,670	9,521
Reading First	112,500	111,924	112,067	(143)
Other	<u>1,727</u>	<u>1,727</u>	<u>1,727</u>	<u>-</u>
Total Added Needs	<u>468,246</u>	<u>435,061</u>	<u>421,393</u>	<u>13,668</u>
TOTAL INSTRUCTION	<u>1,296,471</u>	<u>1,284,061</u>	<u>1,278,203</u>	<u>5,858</u>
SUPPORTING SERVICES				
Student Services:				
Comprehensive School Reform	-	1,825	1,824	1
Other Services	13,201	10,669	11,244	(575)
Library	15,175	17,615	14,749	2,866
Computers & Technology	<u>57,800</u>	<u>44,500</u>	<u>34,654</u>	<u>9,846</u>
Total Student Services	<u>86,176</u>	<u>74,609</u>	<u>62,471</u>	<u>12,138</u>
General Administration:				
Board of Education	20,716	46,650	47,308	(658)
Executive Administration	<u>189,334</u>	<u>192,200</u>	<u>189,863</u>	<u>2,337</u>
Total General Administration	<u>210,050</u>	<u>238,850</u>	<u>237,171</u>	<u>1,679</u>

See Notes to Financial Statements

VANDERBILT AREA SCHOOL
GENERAL FUND
SCHEDULE OF EXPENDITURES, AND OTHER USES
BUDGET AND ACTUAL (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGETED AMOUNT</u>			<u>VARIANCE WITH FINAL BUDGET OVER (UNDER)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
SUPPORTING SERVICES (CONTINUED)				
School Administration				
Office of Principal	\$ 62,250	\$ 62,500	\$ 61,416	\$ 1,084
Business Services	<u>9,779</u>	<u>9,779</u>	<u>9,779</u>	<u>-</u>
Total School Administration	<u>72,029</u>	<u>72,279</u>	<u>71,195</u>	<u>1,084</u>
Other Operations				
Plant Operation and Maintenance	236,475	223,350	213,649	9,701
Pupil Transportation	70,835	61,000	59,931	1,069
Capital Outlay - Supporting Services	2,500	2,500	2,500	-
Debt Principal	29,130	29,129	29,000	129
Interest	<u>15,321</u>	<u>19,086</u>	<u>19,086</u>	<u>-</u>
Total Other Operations	<u>354,261</u>	<u>335,065</u>	<u>324,166</u>	<u>10,899</u>
TOTAL SUPPORTING SERVICES	<u>722,516</u>	<u>720,803</u>	<u>695,003</u>	<u>25,800</u>
OUTGOING TRANSFERS				
Athletics Fund	<u>26,500</u>	<u>22,000</u>	<u>26,134</u>	<u>(4,134)</u>
TOTAL OUTGOING TRANSFERS	<u>26,500</u>	<u>22,000</u>	<u>26,134</u>	<u>(4,134)</u>
TOTAL EXPENDITURES AND TRANSFERS OUT	<u>\$ 2,045,487</u>	<u>\$ 2,026,864</u>	<u>\$ 1,999,340</u>	<u>\$ 27,524</u>

See Notes to Financial Statements

OTHER SUPPLEMENTARY INFORMATION

VANDERBILT AREA SCHOOL
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>SPECIAL REVENUE FUNDS</u>				
	ATHLETIC FUND	FOOD SERVICE FUND	DURANT DEBT FUND	CAPITAL PROJECT FUND	TOTAL
ASSETS					
Cash	\$ 2,978	\$ 1,586	\$ -	\$ -	\$ 4,564
Due From State	-	656	-	-	656
Inventory	-	1,931	-	-	1,931
Due From Other Funds	-	655	-	-	655
	<u>-</u>	<u>655</u>	<u>-</u>	<u>-</u>	<u>655</u>
TOTAL ASSETS	<u>\$ 2,978</u>	<u>\$ 4,828</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,806</u>
LIABILITIES AND FUND EQUITY					
LIABILITIES					
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE					
Reserved	-	-	-	-	-
Unreserved	2,978	4,828	-	-	7,806
	<u>2,978</u>	<u>4,828</u>	<u>-</u>	<u>-</u>	<u>7,806</u>
TOTAL FUND BALANCES	<u>2,978</u>	<u>4,828</u>	<u>-</u>	<u>-</u>	<u>7,806</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,978</u>	<u>\$ 4,828</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,806</u>

See Notes to Financial Statements

VANDERBILT AREA SCHOOL
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2006

	<u>SPECIAL REVENUE FUNDS</u>				
	ATHLETIC FUND	FOOD SERVICE FUND	DURANT DEBT FUND	CAPITAL PROJECT FUND	TOTAL
REVENUES					
Local Sources	\$ 17,397	\$ 16,116	\$ -	\$ -	\$ 33,513
Interest	-	16	-	89	105
State Sources	-	5,607	2,771	-	8,378
Federal Sources	-	46,409	-	-	46,409
 TOTAL REVENUES	 17,397	 68,148	 2,771	 89	 88,405
EXPENDITURES					
Athletics	42,269	-	-	-	42,269
Food Service	-	72,111	-	-	72,111
Other	-	-	-	2,469	2,469
Debt Service					
Principal	-	-	1,910	-	1,910
Interest	-	-	861	-	861
Capital Outlay	-	-	-	18,777	18,777
 TOTAL EXPENDITURES	 42,269	 72,111	 2,771	 21,246	 138,397
REVENUES OVER (UNDER) EXPENDITURES	(24,872)	(3,963)	-	(21,157)	(49,992)
OTHER FINANCING SOURCES (USES)					
Transfers In	26,134	-	-	-	26,134
Transfers Out	-	-	-	(319)	(319)
 TOTAL OTHER FINANCING SOURCES (USES)	 26,134	 -	 -	 (319)	 25,815
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	1,262	(3,963)	-	(21,476)	(24,177)
FUND BALANCES, BEGINNING OF YEAR	1,716	8,791	-	21,476	31,983
FUND BALANCES, END OF YEAR	<u>\$ 2,978</u>	<u>\$ 4,828</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,806</u>

See Notes to Financial Statements

VANDERBILT AREA SCHOOL
OTHER SUPPLEMENTARY INFORMATION
STATEMENT OF BONDED INDEBTEDNESS
YEAR ENDED JUNE 30, 2006

	1997 Debt Principal	Durant Debt Principal	Total
<u>Fiscal June 30</u>			
2007	125,000	2,001	127,001
2008	135,000	2,096	137,096
2009	145,000	2,196	147,196
2010	155,000	2,301	157,301
2011	160,000	2,410	162,410
2012	170,000	2,525	172,525
2013	180,000	9,772	189,772
2014	190,000		190,000
2015	195,000		195,000
2016	195,000		195,000
2017	200,000		200,000
2018	200,000		200,000
2019	200,000		200,000
2020	200,000		200,000
2021	200,000		200,000
2022	200,000	-	200,000
	<u>\$ 2,850,000</u>	<u>\$ 23,301</u>	<u>\$ 2,873,301</u>
Principal payments due	May 1	May 15	
Interest payments due	May 1 and November 1		
Interest rate	4.75%-5.125%	4.761353%	
Original issue	<u>\$ 3,400,000</u>	<u>\$ 25,211</u>	



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REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

September 20, 2006

Board of Education
Vanderbilt Area School
Vanderbilt, Michigan 49795

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Vanderbilt Area School as of and for the year ended June 30, 2006, which collectively comprise the Vanderbilt Area School's basic financial statements and have issued my report thereon dated September 20, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Vanderbilt Area School's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Vanderbilt Area School's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

I noted certain matters that I reported to management of Vanderbilt Area School in a separate letter dated September 20, 2006.

This report is intended solely for the information and use of management, federal awarding agencies, pass-through entities, the Michigan Department of Education, and Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "T. Zick, CPA, P.C.", written in a cursive style.

THOMAS R. ZICK CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT



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FINANCIAL AUDIT COMMENTS

September 20, 2006

Board of Education
Vanderbilt Area School
Vanderbilt, Michigan 49795

I have audited the basic financial statements of Vanderbilt Area School, Vanderbilt, Michigan, for the year ended June 30, 2006, and have issued my report thereon dated September 20, 2006. My report is unqualified with a going concern modification.

I have conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

The management of Vanderbilt Area School, Vanderbilt, Michigan is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing my audit of the general purpose financial statements of Vanderbilt Area School, Vanderbilt, Michigan, for the year ended June 30, 2006, I obtained an understanding of the internal control structure. With respect to the internal control structure, I obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and I assessed control risk in order to determine my auditing procedures for the purpose of expressing my opinion on the basic financial statements and not to provide an opinion on the internal control structure. Accordingly, I do not express such an opinion.

I noted certain immaterial matters involving the internal control structure and other matters that I detail for your attention below.

BUDGETS

The School District is required under Public Act 621 of 1978 to adopt (pass) a budget (General Appropriations Act) for the General Fund and Individual Special Revenue Funds. The District complied in all areas except the following expenditure areas that exceeded budgeted amounts:

<u>Fund/Function</u>	<u>Total Budget</u>	<u>Actual Expenditures</u>	<u>Budget Variance</u>
General Fund			
High School	\$ 255,000	\$ 266,412	\$ (11,412)
At Risk	\$ 46,639	\$ 47,915	\$ (1,276)
Reading First	\$ 111,924	\$ 112,067	\$ (143)
Student Services-Other	\$ 10,669	\$ 11,244	\$ (575)
Board of Education	\$ 46,650	\$ 47,308	\$ (658)
Transfers Out	\$ 22,000	\$ 26,134	\$ (4,134)
Special Revenue:			
Athletic	\$ 40,079	\$ 42,269	\$ (2,190)
Food Service	\$ 68,396	\$ 72,111	\$ (3,715)

2005/06 BUDGET / FUND BALANCE PROJECTION

The State Aid Statutes and Public Act 621, (The Accounting and Budgeting Act) prohibit a district from budgeting for a fund balance deficit. Your 2005/06 budget as adopted on June 28, 2005 violated these statutes. In addition, the budget adopted for the 2006/07 year again violated these statutes.

Your General Fund fund deficit for the fiscal year ended June 30, 2006 was \$177,637. This violates state statute which prohibits ending the fiscal year with a deficit in any fund.

A deficit elimination plan was filed by the District and accepted by the Michigan Department of Education. While your adopted budgets violate state law, you are working to eliminate that deficit. According to projections your present deficit will be eliminated during the 2009/10 school year. You have made good progress towards that goal this year by showing a final deficit which is \$46,388 better than your projected deficit for June 30, 2006.

The board and administration should be commended for their vigilance in monitoring the budget during the fiscal year. You ended the year with a lower deficit than your deficit elimination plan projected. While the financial problems have not been eliminated, the board and administration have demonstrated a willingness to work to resolve them and are progressing toward that goal.

Your budget detail reports are used to prepare the summarized budget document approved by the board. The detail reports should agree exactly to the document formally approved by the board, but did not during the 2005/06 year. Differences were not significant, but there should be no differences.

DEFERRED REVENUE

There are still several grants that have deferred revenue recorded because the funds have been received but not spent. The largest deferred amount is Section 31(a) at risk funds with a balance of \$29,234. In addition, during the current year you requested \$31,241 in Title IIA funds but only spent \$12,670. Funds should only be requested if you estimate them to be spent within 30 days.

GRANT ACCOUNTING / REPORTING

There still is no centralized oversight for grant financial management. Copies of grant agreements, grant award notifications and grant expenditure reports could not be readily located although the reporting was much improved over prior years.

I suggest that a file be set up in the bookkeeping office for each grant. Included in that file should be a copy of all of the documents mentioned in the preceding paragraph. In addition, requests for cash draws should also be included in the file. At year end, a review of the grant section auditors report (form R7120) should be performed and each grant should be reconciled to that report.

This is a repeat comment.

PROPERTY TAX REVENUE / STATE AID

The present system for assuring that each school district gets its entire foundation allowance (which is a combination of property taxes and State Aid) is, in my opinion, flawed. With all of the Tax Tribunal adjustments, Board of Review adjustments and homestead/non-homestead adjustments it is very important that each district reconcile taxable values, as reported on the Michigan Department of Education website, monthly.

Changes that occur on the web site are postings made by the county treasurers. These changes are then posted to your State Aid Status Report which directly affects the State Aid funds received each month. Reconciling those changes monthly is important.

1997 GENERAL OBLIGATION BONDS

I would suggest that the District investigate the potential financial benefit from refinancing the existing debt. With interest rates still somewhat lower than 1997 a more favorable rate may be available.

SEGREGATION OF DUTIES

There is not adequate segregation of duties in the accounting area. One individual posts all journals, the general ledger and also prepares checks and reconciles the bank accounts. The same individual also initiates and posts all journal entries. The lack of segregation of duties is inherent because of staff limitations. The board must recognize that all internal controls must be evaluated for cost effectiveness. The controls that could be added would have to be compared with the costs required to obtain those controls. I understand the superintendent is reviewing bank reconciliations and that the high school office is recording student activity cash receipts. While these two procedures do not completely eliminate the segregation of duties problem they are excellent additional controls which help mitigate the issue.

MATERIAL WEAKNESS

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

My consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, I believe none of the matters described above are material weaknesses.

This report is intended solely for the information and use of the Vanderbilt Area School's management, Board of Education, the Michigan Departments of Treasury and Education, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "T. Zick, CPA, P.C.", written in a cursive style.

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